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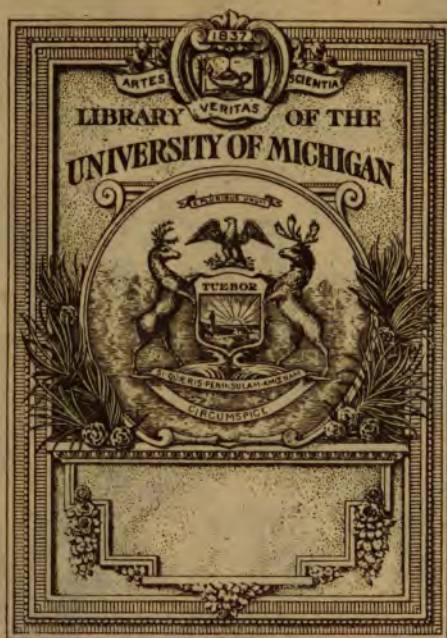
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PROCEEDINGS
OF
CONFERENCE
HELD 7
To Consider the Question
of Tax Reform

AT
HOTEL RICHMOND, RICHMOND, VIRGINIA
JANUARY 20 and 21, 1914

RICHMOND, VA.
WHITTET & SHEPPERSON, PRINTERS
1914

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PROCEEDINGS
OF
CONFERENCE

HELD

To Consider the Question of Tax Reform

AT

HOTEL RICHMOND, RICHMOND, VIRGINIA
JANUARY 20 and 21, 1914

JANUARY 20, 1914.

Mr. Arthur M. Cannon, Chairman of the Committee on Legislation of the Richmond Chamber of Commerce: Gentlemen,— I now have the honor of calling to order this Conference on Tax Reform which is here assembled in response to the call issued by this Committee on the 22nd day of December, 1913. This conference has been organized for the purpose of bringing in closer touch the various interests of this State, with the idea in view that a method of procedure might be adopted whereby we might secure some modern, progressive and up-to-date system of taxation, based upon scientific principles, which can be substituted for our present system so obsolete in its character and imperfect in its operation. To accomplish this result, it is absolutely necessary that everyone in attendance upon this conference shall cast aside all jealousies and prejudices of every kind that he might have had before coming here, and enter into this conference with a spirit of co-operation and of determination to serve this State and her people as a whole.

Your Committee on Arrangements has selected as Chairman of the opening session a gentleman who needs no introduction to the people of Virginia, for we all know him as the first figure in public life in this State. I am pleased to present to you, Governor William Hodges Mann.

Governor Mann: My friends, before I was introduced I intended to make a speech; but I am afraid to do it now, because

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I am afraid that I will not come up to the recommendation which has just been given me, and I am going to stand on that recommendation. I will just say to the two gentlemen who will be speakers on this occasion, and whom I have met in the National Tax Conventions, that they are perfectly welcome to this old Commonwealth of Virginia, and I hope that during their stay here they will fully enjoy our hospitality. They are not only welcome because we have invited them here as our guests, but they are welcome because our old Commonwealth belongs in part to them. We flatter ourselves that the history of this State is so interwoven with the history of this country, since Virginia has contributed so much to the building up of this great nation, that our history and our territory belong in great part to every citizen of this great country, and when you are here you are on your own ground.

It is now my pleasure to introduce a gentleman who will make a speech, Mr. George Ainslie, Mayor of the City of Richmond.

Mr. Ainslie: Mr. Chairman and Gentlemen,—If we enter into this conference with a proper spirit, a spirit of determination to do equity and justice, a spirit unalloyed with any feeling of passion, or prejudice, or self-consciousness, then this meeting is of great moment, and is pregnant with great benefits to the people of this State.

Tax reform is not a new subject with us. I believe that something like thirty years ago an elaborate tax reform bill was introduced into the Legislature of Virginia by Mr. Henry R. Pollard, I believe, now the City Attorney of this city. That bill met the fate that all tax reform bills have met.

Now there is one good omen about the present movement, and that is that everybody agrees that something ought to be done; and the first step necessary in any reform is to recognize the need of a reform. I am sure I speak for myself, and I believe that it will not be considered impudence, at least I hope not, if I say that taxation is a science with the knowledge of which we are not all born. It is a science to which able men give many years of their lives in study to master. Now since we all recognize that the patient is very sick, it seems to me that a good thing to do would be to call in and at least consult the doctors.

It is a great pleasure to me not only to welcome this meeting to Richmond, but the eminent gentlemen who are to address you, and I indulge the confident hope that out of this meeting will come great good to this city and to the State of Virginia. I thank you for your attention.

Governor Mann: For the meeting to be in form, it is necessary to have a secretary, and I am going to take the privilege of Chairman to appoint Mr. Dunlop secretary of this meeting. I hope Mr. Dunlop will act.

The next speaker will be Mr. T. M. Carrington, President of the Chamber of Commerce, who will welcome you on behalf of that body.

Mr. Carrington: Governor Mann and Gentlemen,—As President of the Chamber of Commerce I extend to you gentlemen a most hearty welcome. We want you gentlemen to feel that Richmond is yours, the capital of your State, and that we are merely the custodians, and that these old streets and everything else in Richmond belong to you. Whenever you come here you want to feel that this city is your city, and especially while the members of the Legislature are here, you not only hold the city, but you hold our laws either in suspense or you are going to put them in operation pretty soon.

Now the Chamber of Commerce appointed some time ago this committee which had in mind the bringing you together in a regular manner so that we could suggest to you gentlemen a plan to bring about tax reform, and they have worked hard and have worked long, and this is the culmination to-night of their work. We come here, and before we leave we hope that in every man's mind there will be some well-defined idea and plan of how it should be done. I think that this is about what is in a great many people's minds, that a commission or committee with authority should be appointed, and they should work until they can get this whole proposition threshed out and get action, then to call an extra session of the Legislature whose whole time and attention will be devoted to that proposition, and that proposition alone. The tax question is very much involved. I reckon it has brought on more wars than anything else in the world; I reckon

it has made more truthful men tell lies than anything else in the world; and it is simply one of those propositions where it is mighty hard for a man to be a proper judge of himself. When he is listing his land for taxation, it is a no account strip of land, full of washes and gullies; but when he comes to sell it, it is a magnificent field ready for any growth whatever. That is human nature, gentlemen, and it is mighty hard to go against human nature. But I am sure there is plenty of wisdom and patriotism in the present General Assembly of our State to select the proper men to be associated with them, who can bring in the proper form of a bill for taxation, and I believe we all feel that confidence. Gentlemen, I thank you.

Governor Mann: Gentlemen of the Conference, it is my pleasure now to introduce a speaker from the State of Wisconsin, a gentleman I have had the pleasure of meeting in National Tax Conferences in the United States and Canada. He comes from a very progressive State, the State of Wisconsin. I suppose the State of Wisconsin has made as many advances in statute law as any State in the Union. It certainly has a very good and progressive Governor, with whom I am well acquainted. I now have the pleasure of introducing Mr. T. S. Adams, Chairman of the Wisconsin Tax Commission, who will now address this audience.

SEPARATION OF THE SOURCES OF STATE AND LOCAL REVENUE AS
PROGRAM OF TAX REFORM

HONORABLE T. S. ADAMS
CHAIRMAN WISCONSIN TAX COMMISSION

Mr. Adams: Mr. Chariman and Gentlemen of the Conference,—I have been asked by the Secretary of this organization to talk somewhat about the proposition of separation and to say something also about the experience of the State of Wisconsin. I fancy from what I have heard before the meeting that a majority of the Committee or organization which asked me here are very heartily in favor of the project of separation in the State of Virginia, and it is a very signal tribute to their disinterestedness and their impartiality and fair-mindedness that they asked me

here on this occasion and suggested that topic, because I suppose among the college men of the country and the tax commissioners of the country I have stood possibly as perhaps among the very first of those who have opposed the proposition of separation or segregation—not all of it, but the plan to use it as the general method of tax reform. The fact that I should have been asked here to discuss that topic is a very signal tribute to the desire of those gentlemen to have an open discussion; and I might add that it will make me cautious in applying in the State of Virginia any ideas on this subject which I have developed in the State of Wisconsin without a good deal of thought.

SEPARATION OF SOURCES OF REVENUE

In the beginning I want to speak very briefly about the separation of sources, so called, as a general proposition, and then I hope to get on somewhat firmer ground in discussing what Wisconsin has done with the plan which has brought something in the nature of tax reform to the State of Wisconsin. You all understand what I mean by separation of sources—the proposition that the State shall take unto itself certain taxes from certain sources of revenue, sufficient for its own support, leaving to the local governments certain distinct taxes. The idea is that then the State is imposing no general tax on property throughout the entire Commonwealth, and each particular local subdivision of government will be free to deal with its own tax problems more or less as it sees fit.

ORIGIN OF IDEA OF SEPARATION OR SEGREGATION

I think perhaps a word ought to be said about the origin of this idea. Twenty-five or thirty years ago State taxes were relatively more important than they are to-day, before the cities had grown so great and the city budgets had waxed to the alarming volume and size we now know. At that time also there was very much more local assessment of large corporate properties, particularly railroads and public service corporations, than there is to-day—local assessments of the separate parts of great public utili-

ties. The State tax being important, there was a very general desire on the part of the local governments to escape as much State taxes as possible. As stated before, the assessments of large interstate corporations being local, it was obvious to persons who thought that it would accomplish a great reform if the assessment of those intercommunity enterprises could be centralized, so the inference was generally drawn, "Let's do away with this thing, because it debauches the assessments; let's not have any State taxation if we can do without it; this thing makes men perjurers, it makes everybody get from under; let's let the State take the taxes from those." Then we drew the conclusion that it would be a good thing if a State could have its own sources of revenue and each locality its own sources of revenue; and as in this involved and complex subject of taxation, the people needed some program, needed some rallying point, needed some slogan, so they set up the slogan of separation, and made a fetich of it, and sometimes fell down and worshipped it, as I think, perhaps rather idolatrously.

OBJECTIONS TO SEPARATION AS A GENERAL PROGRAM OF TAX REFORM

I would not be frank if I did not state that I have been on the whole opposed to separation as a general program of tax reform. First of all, I have been opposed to it because I thought it evaded the chief issue. In the United States as a whole, the State tax on real property has only been eleven per cent. of the entire tax on property; the average State tax is only eleven per cent. of the aggregate, composed of county, local and State taxes. In the State of Wisconsin in the last thirty or thirty-five years, it has been only eight per cent. of that aggregate. It is very obvious, therefore, that of those forces which lead to under-assessment, which lead to chaotic conditions, misrepresentation and under-assessment, the State tax cannot be a very important factor. Over against that are the other factors represented by the eighty-nine per cent. Now you are not going to cure very much by remedying that eleven per cent. I understand that the situation is not exactly the same in Virginia, but that is the condition in the average American State.

Moreover, I have been somewhat opposed to separation, because I believe that in accomplishing it the State government will generally take the best. It is an easy thing for a great Commonwealth to say, "I will take the railroads, I will take the banks, I will take the liquor licenses and this, that and the other, and you can take the rest." It is a rather tempting proposition. It forgets the real fact that the financial problems of the cities and counties are very much greater and more vital than the financial problems of the State government. I have, as I said, been opposed to it somewhat on that ground.

I am opposed to it a little on another ground. I believe that in general it is not a good thing to take the corporation taxes over and put them in a group and leave that group to constitute in a measure a definite State problem, for that class of property to be dealt with alone by the State Legislature, for that group of taxes the State Legislature alone to be held responsible, and for this great problem of controlling the property tax throughout the commonwealth as a whole to be dealt with through a group of unrelated, unco-ordinated, discordant local governments. I felt the effect of concentration on the State government, and I regretted, and still regret, the absence of that natural criticism that acts as the best and most fundamental check on a State Legislature that is imposing a tax on the property of citizens. I think it is a wholesome thing, and I shall regret the day when the Legislature of a State ceases taxing the farmer in the upper corner of the State; because, after all, this action that touches the pocketbook is the thing which brings a man in contact with his government, which makes him greatly interested in it and want to know what the Legislature is doing and how much it is spending. I feel that the project of separation may foster extravagance, and as I am honest, I don't want to hide that fact from you.

I have been recently making some analyses of the increasing expenditures of the State governments of the United States; I rather regret from this standpoint that I have been unable to complete those investigations up to the present time. But I am under the strong impression, from a casual survey of those figures, that it is those State governments which have most nearly approached

the segregation of sources whose expenditures have increased most rapidly within the last ten or twelve years. I believe it is probable that there will be found to be a direct relationship between the increased expenditure of a State government and the nearness with which it approaches separation and segregation of State sources. I cannot state that as a positive fact; I wish my collection of figures and tabulation of them had gone a little further before I was forced to leave.

RELATION OF SEGREGATION TO POLICY OF STATE EQUALIZATION

There is another point the advocates of separation have made a great deal of, and properly—let us be entirely fair—the policy of State equalization. You probably know that in most of the Western States a State Equalization Board solemnly meets in the capital of the State and solemnly apportions the taxes; and most of you have heard that the practice in most of the States nearly resembles a farce. There is a lot of huge guessing on the part of the State officials, who sit down without much knowledge and very little real interest, and do that; and you have been told that equalization is a failure, and it is mostly a failure. But the point I want to call attention to is that separation or segregation does not do away with equalization; you cannot do away with equalization; any attempt to do that is to copy the ostrich, throw your head into the sand, and imagine it is not raining. The burden is going to fall somewhere. The question is, will you, with as much thought as you can give to it, attempt to distribute that burden, or will you attempt to cover it up by taking from the local governments the sources of revenue which they would otherwise have and use them for the State. Now if you take the business licenses for the State of Virginia, and the railroads, and the liquor licenses, and this, that, and the other thing, and draw them into the State treasury, take them away from the local governments for the State taxes, how will the local governments make up their loss?

THE NATURAL UNITS OF TAX JURISDICTION

As I understand the present proposition in the State of Virginia, it has much that is admirable, fine; the rest of it does not impress me so deeply. This is a local application which I apologize for, I don't want to make local applications at this time, though they may be important. But still I think that segregation, if indulged in as a complete program, forgets this important fact, that there are natural units of tax jurisdiction. After all, particular things ought to be taxed by particular subdivisions of government, and we do not want to strain that; we ought not to distort that natural solution of this problem by any large theory of segregation. There are some sorts of business enterprises that ought to pay taxes to the State government because they are State-wide industries by their nature. The telegraph industry is a good instance of that; naturally the State ought to have that tax; it permeates every part of the State, and every man who knows taxation practically and has ever attempted to divide such a tax knows that it is nearly impossible. The natural, the easy, the genuine, the real solution of that problem is to have the State take it. And there are some other things which just as inevitably and just as naturally belong to the local governments, and it is exceedingly undesirable that the State should take them away from the local governments. That problem ought to be settled on its merits. When we get through with that, if the State has enough revenue to support it from the natural State-wide industries, we will thank God and say amen; you don't have to have a State tax. If you do have to have a State tax, that can be taken care of later.

OBJECTIONS TO THE CREATION OF AN EASY FORMULA OR OF A SHORT CUT

Finally, the thing I most object to in this matter is the creation of a formula, of a short cut, of an easy solution of this problem of taxation. Gentlemen, I wish I were a great speaker, and if I were a great speaker I would try to leave with you one message. There is not any short cut, there is not any easy formula, there is not any royal high road about this subject of taxation. Un-

fortunately it is a difficult problem, difficult because it is complex, because of the multitude of interests involved, and the intricate commingling of factors. There is not any easy formula or short cut, but simply earnest, laborious work—work day in and day out—the appointment of men who will work, compensation to those men that will reward that kind of service, study and investigation; the same sort of earnest, patient, enthusiastic devotion which you give to your private business concerns. You have got to have men, thinking men, on this job continuously, and you have got to pay them enough to keep them there before you are going to settle this problem. Now if there is one message I would leave with you, that is the message I would leave; and the thing I wish to say most of all is this—I shall come back to this as my last word. As I understand your program of separation in Virginia, it has much that is sound and admirable, mixed with much that is unsound. But you are not going to settle any problem in Virginia by merely believing that the State taking these taxes will get rid of all of your trouble. It will not. You are not going to settle this problem as easy as that. You have got to have patient study of it. What is going to happen to the local governments when the State gets on easy street, if you will pardon the slang? What is happening back in the country when you have got your own property taxes and personal assessments? I looked into some of the figures the last time these figures were collected in Virginia, and I found that the State was only getting twenty-eight per cent. of the property taxes levied in Virginia, there being seventy-two per cent. left. Separation does not diagnose down to the depth of this disease which we are trying to cure; you have got to find some more potent remedy.

I do not want to stand in the way of men whose opinions I thoroughly respect in the State of Virginia. No man can come from another State and advise the people of a State. But remember that you will have the problem of seventy-two per cent. back there, and that is a bigger problem than the segregation problem.

WHAT HAS BEEN DONE IN WISCONSIN

I want to speak now very briefly about Wisconsin, and I want simply in plain unvarnished terms to tell what has been done up there, neglecting what we have not done, because there are a great many things we have not done, of which we are not so glad to speak, by the way.

About twelve or thirteen years ago the State Tax Commission was created in Wisconsin, and it is interesting to me to know that it was created in the beginning with no more important power than investigation, it was given no real function besides investigation. I was there when the commission started, and I do not recall a single thing it was to do except to look into this tax matter. The Legislature said, "We have a deep problem here, and we want impartial, high-minded men, to study it and think about it." A couple of years later they said to the Commission, "Here, you are specializing in this, we want you to make a State equalization." At that time there was a difference in the assessments between county and county, and between district and district in the same county, and we had a State assessment made by a board, very imperfectly, they made a guess at it. The Commission began to study that problem, and they took it seriously, they did not believe that this thing was to be settled by walking in some fine afternoon in May and sitting down and saying, "Put Dodge County at so much, Dane County at so much, Washington County at so much, Adams County at so much"—we have the President and the Chief Justice, as you have. They began to study it seriously, and when they got through, they found that some counties under the old assessment paid as high as forty-five per cent. too much, and some thirty per cent. too little. The old assessment was grotesque in its utter lack of logic, its utter lack of sense, in its lack of any idea behind it; and they got some sense into it, and that problem has practically disappeared in Wisconsin to-day. I am glad to be able to say sincerely that the State tax presents no problem in Wisconsin any more; the people in Wisconsin know that the State tax is expended properly by a board that looks into it and sees that the State gets it. We hear no more of squabbling between county and county. The problem is

a problem of the past; it has been settled by the simple, natural solution, getting the facts, and paying somebody to get them, and you are going to find no royal road to the solution of the problem besides that, that is the only road, that is the only State machinery that will work. It is better in one State than in another, but by one road or another, one solution or another, somebody has got to get down to brass tacks before there is going to be any satisfactory solution of your Virginia problem.

Now I have got to stop here a minute. Our assessments in the State of Wisconsin are made by townships. We have the old New England township system of government. Our fundamental unit of government is the town, or maybe a city or a village; a certain number of those are aggregated into a county, and that is another unit; the counties make up the State. We have State equalization and county equalization. The assessors are elected by the local districts, those fellows make their own assessments in their little local districts, and then the county board sits and equalizes for the county just as the State Commission sits and equalizes for the State.

COUNTY EQUALIZATION STATUTE AND A STATUTE FOR PROTECTION OF INDIVIDUALS

Now the county equalization boards were farces very frequently, not because the men who sat in them were not more or less earnest and well meaning, but because they did not have the facts. What is the trouble with this problem, we don't know. There used to be a great deal of complaint, and there was a very inefficient method of redressing grievances. The Legislature said, "We have a Commission studying this question; suppose we turn this over to them?" So they passed what is called the County Equalization Statute, which provided that if any county was dissatisfied with the equalization it could appeal to the State Tax Commission, and if we found it was wrong, we could send our own man down there and readjust it for the benefit of the county injured. That has been a great benefit. If any county, city, or town, is dissatisfied with the equalization, it can appeal to the State Tax Commission, and

an investigation is made, supplemented by the great mass of facts we have in our office all the time; and if the investigation shows that the county, city or town, has been unjustly treated in the equalization—and if you have had experience in that, you know that frequently there are combinations of county districts against city districts, or city districts against county districts—that condition can be remedied, and we are remedying it in those cases by sending men and making a new equalization.

But it soon became apparent that that was only touching the minor problem also. In Wisconsin the State tax is eight per cent. of the total, the county tax is seventy per cent. of the total, and the other twenty-two per cent. is local taxation. We had favoritism, we had assessors setting themselves up as miniature divine providences, and saying that this property ought to be assessed at sixty per cent., and this property at eighty per cent., and that property at one hundred per cent. Virginia has that, like all other States. The individual had practically no recourse. What real remedy has a citizen in Virginia to-day—I ask that as a *bona fide* question because I don't know the conditions—considering the time and the expense it takes, what real remedy has he against a discriminating, unjust assessor? He did not have any in Wisconsin. He could go to court, and if he could prove a great mass of things that he would have to prove in Wisconsin, to upset the decision of the assessor, he could upset it, but it took time and money. So we passed in Wisconsin a statute by which individuals could appeal to the State Tax Commission, and if they proved that the assessment was unjustified and discriminatory in his district, and the State service would be improved by a reassessment, the State Commission could send its own man to make the reassessment and charge the cost on the district. We have made hundreds of those reassessments, and the law is the best thing that ever happened in the State of Wisconsin. That has been, more than any other thing, the real weapon of tax reform in the State of Wisconsin. I will not say more than any other thing, because there is one other thing of equal importance, co-ordinate with it. Every time the State Commission makes a reassessment, it sets up a standard and reads the whole State a lesson. I personally

and individually heard three cases of applications for reassessments last year, and before I got through everybody involved was asking for it; "we have been meandering along, playing with this thing, getting nowhere; we are all agreed that we want you to come down and fix this thing up for us so that it will be a guide for the future." That happens again and again, and in the great majority of instances we can get the parties to agree.

More important still, don't you see that that creates a great people's court, where any man who has been injured can be absolutely sure that he can get redress from a commission of that kind?

In the natural course of this equalization work, we collect an enormous mass of data; we know pretty well in advance the character of the assessment work done in a district; we know, if you will pardon the phrase, when it is rotten;—there is no other adjective that fits it—and naturally we can very easily under those circumstances, determine when a reassessment should be made. It has also created a large amount of elasticity, by not throwing on the Commission the work of practically reassessing the whole State at once. But I want to pass away from that.

DEFECTS OF OLD PLAN OF TAXING INTANGIBLE PERSONAL PROPERTY

CORRECTION APPLIED IN WISCONSIN

That did a great deal of good. We still, however, had some grave defects. We had the iniquitous, ineffective, and impossible system of attempting to assess at full rates intangible personal property, stocks and bonds and all that. We made an investigation of the results of it. We found that in some eleven thousand cases, carefully sifted and conscientiously examined, stocks and bonds and securities of that kind were being taxed at 3.31 per cent. of their taxable value; in other words, that they were practically escaping taxation. In one county there was an assessment of \$197 per capita of that kind of thing; in the next county \$2.12 per capita. In the city of Kenosha it was somewhere around \$600 per capita; in the county outside, six cents per capita; in one

county there was no assessment, in another county the assessment was \$100. We knew that it was not only failing, but down at the bottom we believed that the attempt to levy on stocks and bonds the same assessment as on real property was iniquitous. Take a five per cent. bond, yielding \$20 a year, and any attempt to take from the owner of that a tax of forty per cent. on his income is absurd and iniquitous on its face. We believed that it ought to be abolished, but we believed that there was sound truth and sound policy in the idea that the people who owned stocks and bonds should pay some taxes in accordance with their ability at the place where they lived. In other words, while we had not a shadow of doubt that the old plan of attempting to tax personal property at the ordinary market rates was fundamentally wrong, we believed that the idea that people who owned that kind of wealth ought to pay some tax was a good one, but it impressed us that the way to get at that was by an income tax. We introduced an income tax bill and it was passed, and we think the income tax is the best thing that has been introduced into the taxation laws of Wisconsin; it has enabled us to get away from that thing which was hypocritical, which no man could do, strive as he may. The State of Virginia will never in the next thousand years collect the full property rates on that kind of property, and it ought not. You have got to have some amendment of that kind in your law. I take the liberty of apologizing for that local application.

Governor Mann: What would be the effect of a small tax on that sort of property?

Mr. Adams: I think it would be a good thing, connected with an income tax. The income tax is the best way.

Governor Mann: If you cannot get the size of the intangible property, how can you get the income?

Mr. Adams: That is leading me far afield.

A Delegate: The United States Government will get that for you.

Mr. Adams: The American public are not liars; and if you send out an honest income tax assessor and check him up, and if you get busy and mean business and make him know that you mean business, and if on top of that you make the tax rates reason-

able, you can collect an income tax. We are doing that in the State of Wisconsin, and there is not five per cent. of the people of Wisconsin lying about it, and the people are unanimously in favor of it. In one instance I placed that percentage as high as ten per cent. and said that ten per cent. were liars; I was indignantly called down by the men enforcing that tax. I do not believe that three per cent. of the people of Wisconsin are lying about that to-day. But you have got to be fair and you have got to have impartial assessors of income on the job all the time. Now there is your solution of it.

EFFECT OF CENTRAL APPOINTMENT AND CONTROL OF LOCAL ASSESSORS AND OF CIVIL SERVICE

But I don't want to discuss the income tax. I am rather a fiend on the income tax, and if I get started it would not be fair to you and it would lead me too far afield. The point I want to make is this: We used to have in Wisconsin county supervisors of assessments, appointed by the county supervisors to look over the assessments and advise with the assessors. Unfortunately the appointment of them was left to the county boards, and it did not amount to much, because the county boards appointed discreet men, men who would not make trouble, and if a man did make trouble, he lost his head, he did not last. When the income tax came along, fortunately those assessors of income were appointed by the tax commission under the civil service. I do not know of any reform that has been accomplished in State and local taxation that strikes me as so fundamental as what those men have done in the last few years. The whole atmosphere changed as soon as we got to appointing them from above and got them to enforce the law. As soon as an official knows that his job depends not on his softening the law and extending one concession to this man and another to that man, but in a tactful and careful manner, but firmly, he has got to enforce the law or lose his job, you have got a new feature; and that is what was done with the assessors of income, and those men have accomplished a great reform in levying the income tax.

But more important still is the improvement in the property tax. This year the property tax, assessed in Wisconsin, not by guess work, but by careful examination of hundreds of thousands of sales, is eighty-five per cent. of the true value, and I doubt if in any other State it is eighty-five per cent. of the true value. Those of you who know how hard it is to push the assessment up towards the true value, and how much more equal and uniform an assessment made at true value is, will realize what that means. That is the work of the assessors of income, acting also as supervisors of assessments, appointed under civil service and holding their jobs as long as they enforce the law and losing them when they do not.

MODE OF PROCEDURE IN WISCONSIN FOR TAX REFORM AND VALUE OF ITS COMMISSION

The conclusions I want to draw from the Wisconsin episode are these: In the first place, whatever has been done there has been done naturally. We have not had any theories; we have not had any opposition to segregation, or any feeling in favor of segregation, we haven't had it up there. We went at the thing piece meal, we looked at it as calmly as we could, and got the means of doing it.

Secondly, the work of the Wisconsin Tax Commission has demonstrated this beyond a shadow of a doubt: that you can, without prohibitive expense, make a State equalization. I defy anybody to come up and go through our work and dispute that fact, that a practical and complete State equalization can be made up. You cannot do anything but make a good guess at money and credit; I don't know of any way of getting down to facts on that class of property; but if you confine your assessments to tangible property you can make a fair equalization and satisfy any investigator that it has been done properly, and it can be done at limited expense, it can be done cheaply, and at the proper time I will be glad to go into details on that.

Thirdly, I want to call your attention to this fact, that a tax commission of this kind can serve as a great central reserve of

expert aid, enough to make up a railroad assessment. One of the things our tax commission has done has been to recommend a change in the railroad assessment, not as being unjust particularly, but an increase of five or six hundred thousand dollars in the railroad tax to make that tax assessment equal the ad valorem assessment. We have drawn together a group of men who are experts in values, those men are on tap for the local assessors over the State who have got to make the local assessments all through the State. Whenever a local assessor gets into difficulty, he sends to us, and we send him a man. Two years ago, when we had never made any careful assessment of mines in the State of Wisconsin, the local assessor in one of the northern counties rode down and said: "We don't know what we are doing up here with this mine," naming it, "can't you help us?" We didn't know anything about that mine, but we had the University there, and the University had one of the greatest mine experts. I got busy with him and he consented to serve. I went up there with him. The mine had been assessed at \$47,000; when we got through with it, it was assessed at \$1,475,000. That is one of the things we are doing all the time. The assessors know that if they have not got the expert knowledge, they can call on us. The city of Richmond, the city of New York, any great city, can afford to hire its own experts, it can afford to pay and develop and work up a careful system of taxation, but your local districts cannot do that, the great mass of the rural territory cannot do that. A State tax commission can be, and in the ordinary course of events will be, not only of enormous aid and assistance, but an enormous saving.

I want to emphasize again a point I mentioned as I went on discussing, that your tax commission can serve and will serve as an informal court for the solution of difficulties between districts and citizens. You are not going to have adjustment of taxation until you have some simple, easy, cheap remedy. The average State hasn't got it. I hope Virginia has it. We did not have it. The courts were open, but no man, unless it was an outrage that smelled to Heaven, ever thought of going to court for an error in the assessor's figures. Of course if there was a flaw in the proceedings he got an easier remedy, but from the injustice that comes

from a discrimination between one class of property and another there was practically no redress. He has an easier redress at the present time.

RELATION OF CENTRALIZATION AND LOCAL SELF GOVERNMENT

I have been talking to you about a program that calls for a great deal of centralization, I know, but I want to tell you that in centralization the remoteness helps a great deal of the trouble that comes because the assessor is too close to the people he assesses. You cannot say to your next-door neighbor, "You are a liar." Your salary as tax assessor is not worth it. You know that Federal taxation is far more efficient than the average State and local taxation. Why is it? One of the reasons is that the assessor reports to Washington. That is an important point in our State organization, and a great source of strength, that it is not tied up, it is not subject to local pressure, it is not involved in local quarrels, it comes out of the calm and quiet. We have had a great deal of centralization in Wisconsin, and it has been a good thing, because the logic of the situation required it. It is also true that back of the cry for local self government is great truth. You have got to have both. Solomon says that there is a glory of the moon and another glory of the sun and another glory of the stars. There are things for each jurisdiction to do, each has its place, and you will never get this thing right until each is given its own particular field and exercises its own particular guardianship.

WHERE OUGHT VARIOUS CLASSES OF PROPERTY OR BUSINESS TO PAY TAXES IN VIRGINIA

I want to say two or three words about the State of Virginia. I approach this with all the modesty in the world, with great diffidence, and altogether in the nature of suggestion. I am perfectly willing to be rebuked *ad infinitum*. The first thing I want to say is this: If I were a citizen of the State of Virginia, I would start out to settle this problem of segregation by simply saying to myself, "Where ought these various classes of property, or business, to pay taxes? What is their natural jurisdiction?"

You all know that the natural place for real estate to pay taxes is in the local district in which it is situated. Now I have not any comment to make on conditions in the State of Virginia, except this, and this is the point—if it means anything, I am not certain it does, but if it means anything I am in utter agreement with those people who urge segregation in the State of Virginia, and that is, that intrinsically a railroad is a State-wide institution, and it would be easier and better for the railroads to pay taxes to the State of Virginia. I do not believe that because a railroad runs for ten miles in a county, that county has any reason to collect taxes from it. Out in California they constructed shoestring districts and called them school districts, and in some cases they got more taxes from the railroads than they knew what to do with. I do not believe that is right. I believe a railroad is a State-wide proposition, and the State ought to take that. I may be treading on somebody's toes, and my advice may not be worth anything, but that is the way it impresses me.

SEPARATION OR SEGREGATION SHOULD NOT ENTIRELY DO AWAY
WITH STATE TAXES ON PROPERTY

Secondly, outside of that, I do not believe that you ought to force your program one bit in the attempt to get absolutely enough for your State government so that you can do away utterly with the levy of taxes on property. I believe that in Wisconsin the very beginning of reform was the necessity for State equalization. I believe that can be done here; I may be wrong about that, but I do not see why that should not be done here; and if it can be done here, the existence of State taxation will be a good thing. It gives the State officer a real interest in the local assessments, and the local governments, it makes him collect facts which are of infinite value to the local officials, it puts him next to local conditions. I think I can say that the State Tax Commission in Wisconsin knows more about such things than the local people, and we are in a position to help them and aid them. If you do not get quite enough in the State of Virginia after you take over those things, why don't you levy taxes on real estate alone? I will say that we will never be able to make any practical equalization so

far as rates on intangible property, I do not see how we can, but on real estate we can do it easily. It seems to me equitable, fair and easy that the State officer should make that equalization, and when you get through you will have a mass of data that will be invaluable to the local officers. Why would not that work?

NECESSITY OF FULLY KNOWING FACTS OF SITUATION

Thirdly, I want to urge this: Down at the bottom this whole problem of taxation is a problem of knowing facts. We talk grandiloquently about theories, and about projects of reform and about progress, but down at the bottom the thing that counts infinitely more than all that is a knowledge of the simple facts of the situation. Let me illustrate: The thing that did more, in my opinion, to get an income tax in the State of Wisconsin, was the investigation of the personal property taxation. That is a thing that you can't four-flush at, you have got to know, and you have got to work to get that knowledge. We found that under our personal property assessments, farmers were taxed just about twice as heavily as merchants. I have not got the figures with me, but we got the figures with respect to personal property of different classes of citizens, which showed that the manufacturer was assessed with the smallest proportion of his property, and certain other classes came next, culminating in the farmer; which shows that this inefficient work never is merely inefficient, it consciously or unconsciously becomes class legislation, until some classes in the community are taxed for and bear the burdens of other classes. Then we took those figures and sorted those men in accordance with their wealth, and we got other interesting results. Who is going to do that in Virginia? If you don't have a tax commission, you will have to have somebody to go to the bottom—somebody interested in it and paid to be interested in it, and working on it all the time. If you don't know, how are you going to act intelligently? The State of Maryland has just been through an exceedingly careful and intelligent campaign on this subject, which has culminated in a recommendation for a tax commission. I want to leave that with you. I do not care anything about commissions as such; they may get to be veritable nuisances, and I

have no pride of office that I want to express here. But the point that I want to make above all others is this: that the big problem is back in the obscure districts, that the basis of the problem is ignorance, that you cannot settle on a program without work, continuous work, patient work, careful work. To do that you have got to pay for it, and you have got to get somebody to do it; and the cheapest way to do that is by means of a centralized body at your State Capitol.

VALUE AND FEASIBILITY OF AN EFFICIENT COMMISSION

I want to leave one final word with you. It will not cost much, relatively speaking. People have said to me, "You cannot get this thing in Virginia." I hope that is not true. But if you can give me two-tenths of one per cent. of the taxes that such a commission would assess in the State of Virginia, two-tenths of one per cent. of the tax, and of those taxes which they equalize, it would be enough to pay the expenses of that commission; and if your Legislature and your people are not willing to pay two-tenths of one per cent. of the taxes assessed in this State in order to get an equal, honest apportionment of the burden, I hope you will pardon me, but I do not think you are entitled to such equalization.

Governor Mann: I am sure that we have all enjoyed the very splendid address which has been delivered by Mr. Adams; and now I am sure we will hear something very good from Mr. Pleydell, who is Secretary of the New York Tax Reform Commission.

REVENUE SYSTEM OF STATE OF NEW YORK

HON. A. C. PLEYDELL,

SECRETARY NEW YORK TAX REFORM ASSOCIATION

Mr. Pleydell: Mr. Chairman and Gentlemen,—The subject on which I was asked to speak involves so many details that, for the sake of brevity, I have written out what I wish to say; and if, at the conclusion, I have not sufficiently covered any of the points, I will be glad to answer questions regarding them. In regard to your local situation, I would say that I am merely presenting the

experience of the State of New York for what it may be worth to you, and without intimating in any way that it is perfect, or in any way entirely adapted to the uses of other States. I should say, also, at this time, I think, that I agree with several things Mr. Adams has said. Separation is not a panacea; there is a question of expediency to be decided according to local conditions and the best interests of those particularly affected. I agree also most heartily with the statement of Mr. Adams urging you to keep up interest in the tax question. There is no short solution to it. I have been studying it a great many years, and the more I see the experience of all the States, the more I realize that there is no short cut. While to a large degree I believe in separation, I am not therefore opposed to a central supervision, and especially so far as it provides an efficient, quick and cheap appeal for the tax payer. I must, however, say this, that conditions in Wisconsin are in many ways different from, and perhaps better than in many of the States, and also that the State of Wisconsin at present has certainly one of the three best tax commissions in the United States. There are other States, unfortunately, in which the commissions are very much less efficient, and in which, perhaps, not all of the good results might be expected from such strong centralization as has happened in Wisconsin.

The State of New York has developed during the past twenty years a number of special taxes, the proceeds of which go chiefly, though not entirely, to the State treasury. The revenue of the State from these special taxes, which now amounts to approximately forty million dollars annually, was for several years sufficient to render unnecessary any State tax on the general property assessed for local purposes—the so-called direct State tax. However, the heavy expenditures for canal and highway improvement have made it necessary to levy again such a State tax to supplement the receipts from special taxes.

To a large degree, the existing system of special taxes has been a development rather than the result of any particular theory of separation of State and local revenues. Therefore the system is imperfect from the standpoint of theory, and is somewhat complicated in practice.

Before discussing the merits and defects, or the historical development, of these special taxes, it may be well to state briefly the present form of these taxes and the State and local revenues derived therefrom.

STATE REVENUES FROM SPECIAL TAXES.

1. The largest single source of State revenue is the inheritance tax. This was first enacted in 1885 and applied only to collaterals. It has been extended gradually until the tax now applies to both direct and collateral legatees. A thorough revision of the law in 1911 established rates graded according to the amount of bequest, with liberal exemptions, and also abolished the former taxation of certain property of non-residents, thus avoiding double taxation. The annual receipts since the change have been four million dollars in excess of any preceding year, and the revenue for the last fiscal year from this tax was \$12,724,236.

2. The next largest single source of revenue is the excise or liquor license tax. The rates are fixed by State law and vary according to population of the district, and were increased materially ten years ago when the State's share of this tax was increased from one-third to one-half. The total annual receipts are \$18,500,000, of which the State receives one-half, or \$9,250,000. The other half goes to the locality where the license is held.

3. Next in importance of yield are the taxes usually grouped together under the general head of corporation taxes, aggregating about \$11,000,000. But these taxes are so different in character that they should be described separately.

They may be divided into two main classes; the first class being those taxes imposed in addition to property taxes, and the second class being those imposed in lieu of the usual property taxes.

In the first class are:

(a) The annual "franchise tax," which is the payment to the State for the privilege of conducting business under a corporate form, and which does not relieve the corporation from local as-

assessment and taxation on its real or personal property, though it does exempt the corporation from the State direct tax so far as that falls on its personal property.

This law is exceedingly complicated. While the tax is measured by the capital, the rate varies according to dividends, and the net result to most corporations is equivalent to an income tax of $2\frac{1}{2}$ per cent. The tax is paid by domestic and foreign corporations, in proportion to the business done in New York, and also by railroads and certain other public service corporations. The revenue is about \$2,500,000.

(b) The organization tax on domestic corporations and the license tax on foreign corporations, are payments to the State on commencing business, and yield \$500,000.

(c) Gross earning taxes. Railroads, telegraph and telephone and various other transportation companies pay a gross earnings tax of one-half of one per cent. on intra-State business only, in addition to their local taxes, and the annual State tax on capital stock. Street railways, water, gas and electric companies pay one per cent. on earnings and no State tax on capital stock. The total yield is \$2,500,000.

In the second class are:

(d) Insurance companies, paying one per cent. on gross premiums from business in the State, which amounts to \$1,500,000. The accumulations of domestic life insurance companies are exempt from personal property taxes.

(e) Trust companies pay a tax to the State of one per cent. on their capital, surplus and undivided profits, and no State or local tax on personal property. This tax yields \$2,500,000.

(f) All savings banks under the laws of New York are mutual, with no shareholders or dividends, and deposits are exempt to depositors; but such savings banks pay a State tax on surplus, yielding about \$800,000.

4. The mortgage recording tax (enacted 1906) is one-half of one per cent., payable once only at the time of recording any mortgage of real property; the mortgage, and bonds secured by

it, being thereby exempted from the personal property tax (but not, however, from the inheritance tax, nor can their value be deducted in computing other special taxes). This tax yields about \$3,500,000, of which one-half goes to the State, and the other half is apportioned to the districts where the property is located.

5. The "secured debt" tax of 1911 extends in general the principle of the recording tax so that mortgages and bonds of other States may pay the same rate of one-half of one per cent. and be relieved from local personal property taxation. This tax goes entirely to the State, and has yielded a revenue of more than \$1,000,000 annually.

6. The stock transfer tax is at the rate of two cents per \$100 of par value on all transfers of stock. While the revenue is chiefly from the transactions on the Stock Exchange in the City of New York, the tax applies to every transfer on the books of a corporation. This is the only special tax with declining receipts. The revenue which, for the first year was \$6,600,000, has gradually declined until it is now a little under \$3,000,000.

7. Automobiles, except commercial vehicles, pay a graded State registration tax, which exempts them from local taxation. The yield is about \$1,200,000.

There are a few other State special taxes, chiefly of the nature of fees, unnecessary to describe, which together with miscellaneous receipts aggregate about \$4,000,000.

LOCAL REVENUE FROM SPECIAL TAXES.

The liquor license receipts and the mortgage recording tax are divided equally between the State and local districts, and the local revenues from these taxes amount to \$11,000,000.

Bank shares pay a special tax at the rate of one per cent. on the capital, surplus and undivided profits. This is in addition to real estate taxes, and no deductions of any kind are allowed to individual shareholders. The tax is collected from the bank and is divided among all the tax districts within the county. (In the City of New York it goes to the general fund of the city.)

This tax is in lieu of the former assessment of bank shares as personal property, and also exempts any securities held by the bank from further taxation. The yield from this tax, which goes entirely to the localities, is about \$4,500,000.

The aggregate revenue to the State from its special taxes is approximately \$40,500,000, and to localities about \$15,500,000, or a total of \$56,000,000.

THE SPECIAL FRANCHISE TAX.

While not strictly speaking a "special tax," mention should be made of the "special franchise" assessment. By an amendment to the law in 1899, the value of the privilege of occupying a public highway with tracks, pipes or wires was made taxable as real estate. For convenience in assessment the value of the tangible property used in connection with this privilege was included in the term "special franchise," and the duty of valuation was imposed on the State Board of Tax Commissioners.

The valuations, however, are placed on the local rolls and taxed at the local rate. The total equalized valuation of "special franchises" is over \$500,000,000, which includes the tangible property formerly assessed separately. There is no tabulation available of the value of such property or of the total taxes collected. A conservative estimate would be that the annual revenue now derived as a direct result of this change in the law approximates \$6,000,000.

It will be seen from the figures given that the legislation of the last thirty years has resulted in annual State and local revenues of approximately \$62,000,000, or if the liquor licenses be excluded, of \$44,000,000, which is raised either from privileges theretofore untaxed, or from modifications of the old general property tax.

DEVELOPMENT OF THE SPECIAL TAXES.

The system of special taxes just described is a patchwork, made up of pieces added from time to time under the stress of financial needs or the exigencies of politics, without following any particular pattern.

Consequently it bears a resemblance to the old fashioned crazy quilt. Yet, just as the quilt, regardless of design, usually performed its function fairly well, so the special taxes do produce revenue, and, despite their defects, in a fairer way than the old plan of the general property tax.

And despite the apparent lack of method, the various changes have been guided by two general policies.

The first policy was to secure revenue for the State from other sources than the general property tax, so as to avoid the difficulties of equalization between counties. The second policy has been to substitute specific and enforceable taxes on various kinds of personal property for the inequality and injustice inseparable from the ordinary personal property tax under modern conditions of industrial development.

THE POLICY OF SEPARATION.

New York, like most States, first raised its State revenues by a tax on the real and personal property assessed by local assessors and subject also to taxes for county and local purposes. Although called a direct tax, this State tax was not levied directly on the individual taxpayer, but was, and still is, charged against each county in proportion to the aggregate valuations therein. The amount is, of course, added to the local rates, but the county is responsible for the entire tax, whether or not it is actually collected. Naturally the counties vied with each other to keep down their valuations and their share of the State tax burden. Therefore a State board of equalization was established, and empowered to alter the valuations of real estate returned by each county, but without changing the aggregate for the State, in order to equalize the burden of State taxes between the counties in accordance with the actual values of real property. Such equalization was largely arbitrary and, although it no doubt corrected some of the grosser inequalities, was never satisfactory, partly because of the suspicion, whether well-founded or not, that political considerations frequently influenced the ratings given to the various counties.

These difficulties of original undervaluation and unsatisfactory equalization, are common to all States having a large State

tax on locally assessed property. New York early sought a means of escape by reducing the amount of the so-called direct State tax, in the hope that with a smaller tax the temptations to undervaluations would be reduced.

This was perhaps the origin of the special taxes. Their extension may in part be attributed to the fact that to distinguish them from the "direct" tax they were termed "indirect" taxes. Such is the power of a phrase that many people still call them by that name, although in fact some of these special taxes are as direct as any tax can be, while the others are no more indirect than the ordinary personal property tax, licenses or other taxes on trade and industry that also are passed on to the consumer in the price of commodities.

When the special taxes began to yield considerable revenue and it was possible to reduce the rate of the "direct" State tax, certain astute politicians conceived the idea of increasing these special taxes so that all of the State revenue would be raised from what they cleverly called "indirect" taxation, in order that the cost of State government would not be shown by any direct addition to local tax rates. This policy was carried out successfully for a time. New taxes were devised, and in ten years these "indirect" revenues rose from \$8,000,000 in 1897, to \$32,000,000 in 1907.

For several years no direct tax was levied except a very small and diminishing rate which was required by the constitution for interest and sinking fund of canal bonds. So far did this policy go that the constitution was amended to provide that no direct tax should be levied for bonds if the Legislature appropriated an equivalent sum to the sinking fund out of the treasury, then filled to overflowing by the special tax revenues, for while the ordinary State expenditures had doubled in ten years the special tax revenues had increased still faster, until a surplus of over \$13,000,000 had accumulated, soon, however, to go the way of most public surpluses.

The abolition of the direct State tax naturally diminished the interest of the ordinary taxpayers in the financial affairs of the State. The repeated use of the term "indirect taxes" also helped to encourage the mistaken belief that the ordinary citizen had no

financial concern with State expenses so long as the money came in from sources other than the direct tax. The special taxes, partly because the rates were fixed, and partly because they were substitutes for more unequal taxes, did not create any interest on the part of those who paid them sufficient to offset the lack of vigilance of the ordinary taxpayer. Furthermore, the burden of those taxes fell most heavily on the City of New York, to the relief of other sections of the State, whose inhabitants naturally were not averse to encouraging large expenditures from which they derived considerable benefit and towards which, so far as they could see, they contributed very little.

More serious, however, than the increase in ordinary expenditures, has been the effect on State finances of the great canal and highway improvements.

Twelve years ago the people approved a project to deepen the Erie Canal and connections at a cost of \$101,000,000. While it is expected that this amount will cover the cost of the original work planned, no provision was made for terminals, for which \$20,000,000 was subsequently voted. To this should be added a former issue of \$9,000,000; and another for branch canals of \$7,000,000; bringing the cost of the canal improvement up to \$137,000,000. It is not unlikely that more money will be needed for terminals.

As the direct benefit from the canal was expected, naturally, to go to the cities along the route, a logical sequence to this improvement was to construct a system of State highways placing the rural districts in communication with the industrial centers that they might share in the advantages of cheaper transportation. Therefore, in 1905 the people approved a bond issue of \$50,000,000 for highways. This sum is about expended, many of the roads have been worn out because of inferior construction and the change in traffic conditions; and the original system is only partially finished, with disconnected sections. Therefore another \$50,000,000 highway bond issue has been approved.

Of this total sum authorized of \$237,000,000 for internal improvements, more than half has been expended. The bonds have been issued from time to time as the work progressed, and auto-

matically with each new issue the sinking fund charges were increased.

At first an attempt was made to meet these charges without resorting to a direct tax, by appropriating money from the surplus and the excess receipts from special taxes. But as the sinking fund charges increased each year, the strain on the special taxes became too heavy.

Finally, in 1911, a "direct" tax of 6/10 of a mill was voted to cover the sinking fund charges; and in 1912 the direct tax was increased to one mill, yielding over \$11,000,000, of which \$6,800,000 was for the sinking fund, and the balance of \$4,500,000 was estimated as necessary for ordinary State expenses.

During the past two years, however, the inheritance tax has yielded \$8,000,000 over former revenues, so that this year the direct tax is only \$6,000,000.

The situation has been further complicated by an error in the law which has resulted in more money going to the sinking fund than was actually required, but this merely hastened the direct tax by a year or two.

The special taxes may be expected to yield an increasing revenue, keeping pace with the general development of the State, and may perhaps suffice for the ordinary expenditures of the State. But they cannot, and should not, be expected to pay also for such costly projects as the canal and highways.

A sound financial policy requires that the State provide for those extraordinary expenditures by a direct tax. A sound economic policy also advises the collection of the cost of these improvements from the property and territory benefited, and this to some extent is accomplished by the direct tax which reaches property values throughout the State.

THE POLICY OF CLASSIFICATION.

Something should be said also of the second general policy that has helped shape the system of special taxes. This policy is the substitution of specific and enforceable taxes for the usual form of personal property taxation and assessment.

New York, like most other States, began its financial history with the general property tax—the plan of assessing each person on the estimated value of his possessions. Fortunately, however, the constitution of New York has permitted entire freedom in taxation, so that there has been no obstacle in the way of changes to meet modern conditions.

New York, because of its great commercial interests, began early to modify its tax system, and adopt a liberal policy to business enterprises. The beginning of its present system, however, was in the historic report made to the Legislature in 1871 by a special tax commission of which David A. Wells was chairman. This report called attention to the gross discrepancies in valuations between different sections of the State, pointed out the inadequacy of equalization, and denounced in vigorous language the inequalities inseparable from the attempts to tax personal property by the ordinary methods of assessment.

The report did not simply lament the failure of the personal property tax, but also discussed its economic imperfections. The commission recommended that the ordinary personal property tax be abolished, and that the State should raise its revenues by taxes upon corporate privileges and financial institutions, leaving the local governments the entire proceeds of the real estate tax.

This Wells report exerted a profound influence on thoughtful public opinion, and although some years elapsed before action was taken, and not all of its recommendations have been followed, the present system of taxation in New York is to a large degree based on the ideas therein set forth. Even the special franchise tax carries out the Wells idea that privileges should be taxed.

The Pennsylvania system of separation of State and local revenue has also had an influence on New York. The State tax on corporations, the bank share tax, and the inheritance tax, were all adapted from the Pennsylvania system, though considerably changed in detail.

The general result of the two policies of separation and classification that have shaped the development of the special taxes has been to produce a system that is neither complete separation or complete classification.

ADVANTAGES OF THE SPECIAL TAXES.

The chief advantages of the New York system are two. First, the reduction of the ordinary State tax has helped to remove the fear of local assessors that if they increased their valuations an undue burden would fall on their district because of the undervaluations in other sections of the State. The pressure of county taxes on local districts, and the failure of county equalization to give proper relief to the better assessed districts, has, however, to some degree offset this advantage. A recent law to improve county equalization methods should rectify this condition, and a more thorough State supervision would result in much improvement. New York, it should be noted, has a township (and city) basis of assessment, with no county supervision over the local assessment.

The second advantage of the special taxes has been the substitution, to a considerable degree, of specific and enforceable taxes at moderate rates, that are actually collected from those liable to them, in place of the haphazard and arbitrary assessment evaded or escaped by many and falling with the severity of a high rate upon the few unfortunate victims who were caught.

DISADVANTAGES OF SPECIAL TAXES.

The system of special taxes has two disadvantages:

First, the revenues lack flexibility. If reliance is placed entirely on special taxes, a considerable surplus should always be kept on hand, as the appropriations will be based upon anticipated revenues that are only estimated and may fall short. And a large surplus is always a temptation. It is difficult also to change the rates in accordance with the varying needs of the State, and such changes might be harmful or unfair even if practicable.

The second disadvantage is that the burden of State expenditures is not felt directly by all sections of the State or by all classes of citizens. There is consequently a lack of interest in State finances, and insistent demands for all sorts of appropriations are made by those who think that nothing will be added to their tax bills in consequence.

A moderate State tax to supplement the special taxes seems desirable therefore, both to provide the needed flexibility of revenue, and to bring home immediately to the voters any undue increases in the cost of State government.

A REMEDY FOR EQUALIZATION DIFFICULTIES.

To avoid the difficulties of equalization in connection with a State tax, the New York Tax Reform Association has advocated the plan known as the "apportionment-by-expenditure" method, for raising annually the money needed by the State in excess of the revenue from special taxes.

This plan is virtually a tax on local governmental incomes. Instead of apportioning the State tax on the basis of equalized valuations, it would be apportioned to the county according to the total revenue raised by the county and all local districts within the county. The amount would be raised by the county as at present by spreading it on the local valuations.

Statistics compiled by the Association show that there would not be much change in the burden on any county, and if allowance is made for obvious inequalities in equalization the actual financial difference of the new plan in any county would be very slight indeed.

The reason is that the taxes raised in any community bear a close relation to its wealth and actual values, whereas assessed values are frequently arbitrary. Low valuations and high rates, or high valuations and low rates, will produce the same revenue, and if the revenue is the basis for State taxes all need of equalization disappears.

This plan has received much favorable comment. When it was first proposed in 1900, however, the policy of abolishing the direct State tax was in the ascendant, and when for a few years there was no direct tax, the apportionment plan became simply an academic question. With the present revival of the direct tax and the recent renewed interest in State finance, it may be possible to secure consideration for the plan.

SOME PARTICULAR DEFECTS.

The two disadvantages of the special tax system which have been described are of a general character, applying to all plans of complete separation. It may be useful to point out some particular defects of the New York system. For one thing, being a gradual development, there are various inconsistencies and inequalities, as, for example, in the capital stock tax on corporations. Then there has been little attempt to differentiate between ordinary business corporations, competitive in character, and public service corporations whose privileges are largely monopolistic and which are also under regulation and rate control.

The State revenues from public service corporations are comparatively small, and are chiefly from taxes that are in addition to the local assessment. The gross earnings tax on railroads and other interstate corporations is, therefore, confined (as it must be when additional to an ad valorem tax) to the comparatively small item of intrastate business, while the local assessment of such corporations (as far as they have private rights-of-way) is confined to the physical value of property. Thus all franchise value arising from interstate business is untaxed. The special franchise tax does reach the value due to the use of public highways, but this tax goes to the localities, except for the amount of the State direct tax.

No effort has been made to ascertain the actual ratio of the aggregate taxes on various classes of public service corporations as compared to the value of their property and franchises, or to their earnings; or to compare these taxes with the burden on ordinary corporate enterprises. Nor has there been any adequate discussion of a possible fairer division of certain classes of property or the taxes therefrom between the State and the localities based upon economic differences in the property or even the fiscal responsibilities of the various governmental divisions.

CONCLUSION.

The New York system of special taxes is in the main satisfactory to the people of the State, and in general favorable to the commercial development of the State.

Its general disadvantages are small in comparison to its advantages, and may be easily removed. Its particular defects have resulted unavoidably from the long process of development, and will probably require time to correct. Doubtless shortsighted demands for immediate revenue may prevent desirable changes, as has been the case in the past; and may lead to unwise alterations or additions.

Even the best planned theoretical systems, however, are open to some criticisms, and every system actually in operation has its defects. Nor can any system be open to improvement without leaving the door open also to retrogression.

The present policy of New York in raising its State revenues from special taxes, in classifying personal property at specific rates, and raising local revenues chiefly from real estate, is in line with the general trend of progress throughout the United States, and based upon sound economic principles. That the system may be modified is quite probable, and, indeed, desirable; but it is safe to predict that no return will be made to the conditions of a quarter century ago.

Mr. Cannon: Before Governor Mann announces the program for to-morrow morning, I want to extend an invitation to the gentlemen present to attend a smoker.

Governor Mann: The meeting to-morrow morning will be presided over by the Honorable Edwin P. Cox, Speaker of the House of Representatives. The address will be delivered by Dr. Thomas Walker Page, Professor of Political Economy of the University of Virginia, and he will be the only Virginia speaker to address the Conference.

Mr. Mann: Mr. Chairman, if the motion is in order, I move that this Conference extend a vote of thanks to these gentlemen for their visit to Virginia, and for the pleasure we have had in hearing what they have to say on the question of tax reform.

Unanimously adopted by a rising vote.

The Conference then took a recess until the next day.

JANUARY 21, 1914.

Chairman Edwin P. Cox, Speaker of the House of Representatives: The Tax Conference will come to order. In opening the Conference this morning, I desire to thank the Committee on Arrangements for having invited me to preside over your deliberations this morning. It may be necessary, in order to fulfil my duty as Speaker of the House, to leave before your Conference is over this morning. I would like very much to be here to hear all that you are going to say and all that is to be said here in reference to taxation. This is a matter upon which the Legislature of Virginia and the whole people of Virginia are seeking light.

We have with us this morning a distinguished citizen of Virginia who was appointed by President Taft as a member of the Tariff Commission, Dr. Thomas Walker Page, whom I shall now present to you, and I think that if you take his views into consideration, we will have valuable light cast upon the subject. Gentlemen, Dr. Thomas Walker Page.

NECESSITY FOR TAX REFORM IN VIRGINIA AND SUGGESTIONS TO
ACCOMPLISH SUCH REFORMS

DR. THOMAS WALKER PAGE,
PROFESSOR POLITICAL ECONOMY UNIVERSITY OF VIRGINIA

Dr. Page: Mr. Speaker and Gentlemen,—Our Chairman, Mr. Cannon, seemed to think it necessary just now to make some suggested explanation as to why the gathering was not as large this morning as it was last night. I could not help thinking that it was probably on the same ground upon which the Kentucky Colonel sometimes found himself a little indisposed in the morning; that is to say, when you indulge the evening before to any excess in the consideration of taxes or other things, you sometimes feel the effects the next morning. When the Kentucky Colonel was greeted and asked, "How do you feel this morning, Colonel?" He replied, "Rotten, sir; how do you think a man ought to feel in the morning?" These gentlemen who talked to us about taxation last night filled me pretty full in regard to taxes, and incidentally they

said a great deal that I had intended to say this morning. That is one reason I am not speaking from manuscript to-day. I had prepared an address with considerable care, an address in which I thought the logic was all right, and which I was fairly well satisfied with as to expression; but I haven't got it with me now, partly because those gentlemen have already said a good deal of what I wanted to say, and mainly because when I went to my room awhile ago to get it, I found that I had brought down an old lecture on tariff reform instead of the address I expected to deliver. Tariff reform is a sort of dead issue now; we congratulate ourselves because we have killed it and made it a dead issue, but we have revived it and added it to the things that the Democratic party has more or less achieved and given it a new life. I had written my address without any special reference to what I was asked to talk about down here. I find it is the necessity for tax reform in Virginia and suggestions to accomplish such reform. I don't think there is any man present who does not realize the necessity of tax reform in Virginia. We had a special tax commission appointed four years ago. They presented a report two years ago, and pointed out the necessity for tax reform clearly enough, I think, to satisfy every citizen in this Commonwealth. They found in going over the whole list of taxes in this State just one tax that they did not condemn, and that was the charter fees and the registration fees for corporations. That is the only tax they did not condemn. And yet the commission on the whole recommended the retention of our system. I was reminded of the fact that in years now long gone by a certain Abraham on the Plains of Mamre, plead with God to spare the cities of Sodom and Gomorrah if he found ten good men within them. God hearkened to his prayer. Maybe it was the influence of that precedent of mercy that led our tax commission to recommend the sparing of our tax system at that time. But they recommended it to be spared not for ten good taxes, but one good tax. In my opinion, in trying to go the Lord one better in this matter of mercy, they acted unwisely.

NECESSITY FOR COMPLETE OVERHAULING OF THE TAX SYSTEM IN VIRGINIA

The fact is, our tax system in Virginia requires absolute and complete overhauling, an overhauling that would require a destruction of the system as complete as that visited on Sodom and Gomorrah. That is pretty radical. We are generally told that what we want in a fiscal system more than in any other field of government is gradual alteration and change, that we do not want radical alteration, that we want things done slowly and in order, that we want evolution rather than revolution. Gentlemen, it depends on what you mean by evolution and revolution, which you are going to adopt. I think that most of the people who advocate those things hardly know what they mean by evolution and revolution; if by evolution you mean sitting still and watching things grow gradually worse from generation to generation, we have tried that, and if that is what you mean by evolution, we are ready to say, "Give us the other thing, whatever it is." The fact is that here in Virginia you cannot scare us much with the word "revolution." We have a good idea that wherever that word has been written in our history, it does not reflect any special discredit on us here in Virginia. We are not afraid of revolution. At the same time, I think that the Virginia people are probably the most conservative in the United States; of all the commonwealths that form this nation, I suppose ours is the most conservative, and I regard that as being an element of strength in Virginia. I think it is a good thing to live in a State where men still have the habit of fearing God, hanging murderers when the occasion arises, and keeping unbroken the strong Democratic majorities that have characterized Virginia in the past. In those aspects I think it is all right.

CORRECTION OF RADICAL DEFECTS CONSISTENT WITH CONSERVATISM

Conservatism in the true sense of the word does not mean inaction. When you say that we want conservative reform of our tax system, it does not mean inaction and negligence. Conser-

vatism, when we want to conserve something that is worth it, means action, sometimes pretty ruthless action. I think it is no reflection on our conservatism if we adopt such radical action as is necessary in view of the defects which our tax system presents at the present time. What are those defects? What is the necessity?

DEFECTS IN SEVERAL DIFFERENT CLASSES OF TAX SYSTEM OF VIRGINIA

I am sure that when the committee made out this program, it did not expect me to go into the details of a discussion of our tax system in Virginia. To take all the laws separately and take all the taxes separately and try to show how each one is deficient, how each one works injustice, would take several days instead of the reasonable time during which you are willing to listen to anything I have to say. But, gentlemen, we can group the defects in our tax system, I think, in two or three different classes; and some rather notable features of our tax system are not defects.

Our system is not defective in the matter of the amount of revenue we raise. We are not driven to tax reform by the need of more revenue. Our system is producing as much revenue as the State wants, and, in fact, a little more. That is a very notable fact in connection with this movement for tax reform. As a general proposition, tax reform has its origin in most cases in the need of more revenue; it is when the system is not yielding enough that people are driven to clamor for tax reform. In Virginia we are not asking for it on that ground, for we are getting a little more than enough revenue for the present needs of the State.

There is yet another thing that we ought to bear in mind. On the average, the tax rate in Virginia is not excessively high, the tax burden is not excessively great on an average to the people of Virginia. But, gentlemen, averages are very often misleading, and it is true in the case of this tax system. To say that our average tax burden in Virginia as compared with that in most States is reasonably light is true, but it is not the whole truth. If several men have to carry a log, the average burden on each man will not be excessive when they pick up the log. But you remem-

ber that a log has a butt end and a little end, and you generally find, before they assume that burden, that there will be a certain amount of circling and dodging around that log, with the result that you usually find the weakest man under the butt end. That is the case in Virginia, there is a certain amount of scuffling and dodging in Virginia, with the result that the weakest citizens are under the butt end when it comes to the burden of taxation. It is not that the rate is excessive, it is not that the return is not adequate, but I think you may group the defects under two general heads.

PRESENT SYSTEM INJURIOUS TO INDUSTRIAL LIFE OF STATE

In the first place, our system contains a number of taxes which are actually injurious to the industrial life of the State, not only oppressive to individuals, but actually injurious and harmful to the business life of this State. Men somewhat disagree as to which taxes are doing harm, but all are agreed that there are in our list of taxes some that are doing more harm than good. There has been, for instance, a strong agitation in the last few weeks to get rid of taxes on deposits in banks, for reasons that have been so fully set forth in the papers that it is not necessary for me to dwell on them here. This tax, if not repealed, should be modified; but it is a tax that should be studied, as we should study all taxes, with very great care before we undertake to substitute something else in the place of them; for when we repeal one tax, we have got to place something else in the place of it in order to keep up the revenue we are now getting. That is one tax in our system that ought to be revised in such a way that it would amount to an absolute repeal.

Another such tax would be the mortgage tax in Virginia. I do not think there is a thoughtful and intelligent citizen of Virginia who does not regard the present mortgage tax that we are undertaking to enforce as being exceedingly injurious to this Commonwealth as a whole. At a time when the country is very much exercised with regard to rural credits, when the Federal Government, many private organizations and a certain number of State

governments are exerting themselves in every way they can think of to try and extend facilities to farmers and real estate owners for borrowing money for their needs, we here in Virginia are maintaining one of the most extreme obstacles to the extension of rural credits which it is possible to conceive of. That obstacle consists in the retention of an inadequate, ill-advised, out-worn, outrageous mortgage tax.

Our income tax as administered at present is beneath contempt, and it is, I think, universally admitted by every person to be beneath contempt as administered in this State, and that has been admitted for years; and yet, on the ground that evolution will gradually weed out these things, we have been waiting patiently for the income tax to right itself. Instead of righting itself, it has grown more and more wrong as the decades have passed.

I have mentioned those as instances of taxes which have got to be taken up by themselves and have got to be reformed to the extent that they will be virtually rubbed out of our statute books; there are many others that might be mentioned, but I mention those by way of illustration. Those are illustrations of many taxes that ought to be so modified as to be obliterated.

INADEQUATE ADMINISTRATION BREEDS INEQUALITIES BETWEEN SECTIONS, INDIVIDUALS AND KINDS OF PROPERTIES

Other objections to our tax system are found in defective or inadequate administration. Even those taxes which in principle are good, those taxes which are imposed by statute in accordance with the Constitution, and which, as taxes, are universally recognized as good, are badly administered, so badly administered as to breed inequality and injustice in the State of an extreme kind. Of course this defective administration is found mostly in the form of unequal assessments. Our tax administration in Virginia is not perfect in many other features, but it is in the field of assessment more than any other that you find bad administration at the present day. These faulty assessments here in Virginia show themselves in the inequalities between one section of the State and another, inequalities between one county and another county, or be-

tween counties and cities; some counties assess property very much lower than the same sort of property is assessed in some other counties and in the cities. That is injurious; all of you know that. In addition to the inequality between section and section, we likewise have inequalities between one person and another person in the same section. That is not so startling and striking in Virginia as I have known it to be in some other parts of the United States. If you take the counties, you will find that the property of some citizens is assessed higher than the property of other citizens in the same county, although it is the same general sort of property; but that is not so striking an abuse, the difference in assessments between individuals in localities, as is the inequality between sections in this State.

Then there is a third manifestation of this defective administration, and that is inequality of assessments as between one kind of property and another kind of property. There are inequalities between sections, inequalities between individuals, and inequalities between different sorts of property. The law requires here in Virginia that all property shall be assessed at a uniform rate. We have been pretending to carry that out, but you know and every other man knows that the law has not been administered. You know that bank stock here in Virginia is assessed and pays taxes at a rate that is out of all proportion to the assessments put upon many other forms of property of the same value. I could mention one hundred illustrations of the inequality as between this property and other kinds of property. The fact is, as Mr. Adams said last night, that those taxes on what is called intangible property cannot be administered, and never will be administered in any manner that will give us ideal equality and justice, either in this State or any other State. It results in Virginia in taxing that part of the intangible property that can be found and located at a rate absurdly high in proportion not only to intangible property but also in proportion to real property which is taxed in Virginia. If, therefore, an honest man declares his ownership in bonds and other forms of intangible property, it is taxed, and the commissioner fixes what he regards as the fair cash value of the property. In the case of a great deal of this intangible property, the com-

missioner knows no more about its value than a snow bird; he guesses at its value.

To illustrate what I mean, I happen to know a couple of old ladies who have been living for years on a little property left by a dead brother in the form of life insurance. That insurance was invested in bonds of companies outside of the State of Virginia for the most part; some of the bonds pay six per cent., some pay four, and some pay three; altogether the return the two old ladies get from their investment amounts to about \$2,100, and they pay over \$600 a year in taxes out of that \$2,100 a year that they get from their bonds. They do not know how to conceal their bonds, how to evade payment of taxes on them. They have an idea that if they swear to a lie the flames of eternal torment will get them hereafter. The result is that they tell the commissioner what they have got. The commissioner does not know anything about the corporations, so he puts down all the bonds at par; he assumes that par value and fair cash value are the same for those things. The other day a case was called to my attention of an old, superannuated, retired preacher in Virginia; an old man who had never made as much as a thousand dollars a year in the course of his life, and who is now over eighty. He has a little home that brings him in no money, but to which he is attached as a home, as you and I are attached to our homes. He has one or two pictures of some value. From all sources he has an income of perhaps as much as \$800 a year. His taxes are \$239 here in Virginia. Gentlemen, those are illustrations of the inequalities as between different kinds of property that arise from our system of taxation here.

METHOD ALSO BREEDS SUSPICION AND DISSATISFACTION BETWEEN CLASSES

There is yet another evil which is the result of this wretched method of assessment that we have in Virginia. Not only does it actually breed these inequalities, but, what is equally as important, it breeds in all classes in Virginia great suspicion, anxiety and uneasiness in regard to the way in which our taxes are being administered. There are many people who have the feeling, for

instance, that the railroads are not bearing their proper share of the burden of taxation here in Virginia. There are many people in the professions, and other people whose property is mainly intangible, who feel that the farmers are not bearing their share. There is suspicion, class suspicion, and general individual dissatisfaction, and you know that is true. There are plenty of people, I do not say in this assemblage, but plenty of people of your acquaintance who suspect that the railroads ought to pay taxes twice as high as they are paying. There are also people of your acquaintance who think that the farmers are evading nine-tenths of the taxes they ought to pay under the laws of Virginia. That feeling is doing as much damage to the industrial growth of Virginia as *the actual inequalities* which I have tried to illustrate. That is the real injustice and oppression which grows out of this thing; it is that suspicion which is injuring the Commonwealth at this time; and we have to do something not only to remedy the abuse, but also to allay this feeling of discontent, dissatisfaction and suspicion.

POLICIES OPEN TO LEGISLATURE

What are the remedies? There are not any panaceas, there are not any short cuts to perfection in this matter of tax reform. It has to be a slow business. However much we think we can tolerate revolution in Virginia, we cannot create a revolution in tax reform; it has got to be gradual.

Three policies are open to the Legislature which is meeting now. One is to try to revamp, rehabilitate the system by taking some special laws and trying to shape them up so as to make the system under which we live a little less oppressive than now. The trouble is that no work of that kind that they do will be at all permanent; it will still leave so many inequalities; it will create so many inequalities, that I do not think it is a proposition the Legislature should seriously consider. I do not think we need delay our own discussion by talking about that.

Another proposal that is before the Legislature and warmly advocated, is the proposal of a permanent tax commission that

shall take charge of the work of administering our tax laws in Virginia. The Legislature, of course, would continue to make laws, but we would create an agency through which the laws would be administered, an agency which would see that laws were administered which at present are not. Gentlemen, that is the line of reform along which most of the American States are moving at the present time. Tax commissions are, relatively speaking, new; that is, commissions that are commissions, that have the power to do the work that they are nowadays being gradually called upon to do; they are relatively new. Ten years ago I do not know how many tax commissions existed in the States, but I would say hardly over six or eight. Is that right, Mr. Adams?

Mr. Adams: That is just about right.

VALUE OF A CENTRALIZED TAX COMMISSION PROPERLY CONSTITUTED

Dr. Page: At the present time centralized tax commissions for the purpose of administering the laws exist in about twenty-seven States. In ten years, therefore, the idea of carrying out the tax laws through a central tax commission has spread over more than half the States of the Union, and a very large number of the remaining States are now seriously discussing this matter of tax administration. Evidently the thing commends itself to the common sense of the American people; it would not have spread if there had not been much to recommend it. There is much to recommend it. As a matter of fact, I do not think the work of assessment can possibly be done by any other agency as adequately, effectively, and as justly, as a properly constituted tax commission.

But, gentlemen, you have got to have your tax commission properly constituted. If you give the name of tax commission to some *ex-officio* body which is to meet two or three times a year to go over the work that is done by men scattered around the State, you had much better not have anything called by the name of tax commission, because it will not be a tax commission at all. A tax commission, to do the proper work, has to work, it has got to have supervision and control of the tax laws, and to exercise

that control; it has got to be on the job, and on the job all the time, and they have got to have the power to do the work. The trouble with the tax commissions which exist now in most of our States is that they are not clothed with power to do the work for which tax commissions are required to stand.

EXPERIENCE OF OTHER STATES

I was interested the other day in looking over the last report of the Kansas Tax Commission; that is regarded as one of the most up-to-date tax commissions that now exist; there are some more effective in their work than the Kansas Tax Commission, but for the middle western States their commission is a good one, and it has not only done good work in Kansas, but it has been of great aid through advice to the tax commissions of many adjoining States. In the report of this Kansas Tax Commission, they show that although they have been at work some five or six years, land on one side of a county line is not infrequently assessed one hundred per cent. higher than that same land on the other side of this imaginary line, and that even within the counties some inequalities exist; that land on one side of the line between tax districts is frequently assessed one hundred per cent. higher than land on the other side of the same tax district line. In other words, although now they have been working for half a decade or more in the effort to get equal assessment of a thing that would appear to be the most easy to assess, that is, the assessment of real estate, they have failed. Now why have they failed? They are perfectly frank in saying why they have failed. They say that the assessments in Kansas are made by local assessors, and those local assessors are not selected by the tax commission; the local assessors are not sufficiently under the control of the tax commission to be compelled to take the idea of the tax commission as to what the value is. Now there are several hundred of those local assessors; they are honest men for the most part, just as our commissioners of the revenue are honest men. It has got to be rather the thing to attack the honesty, integrity and honor of the local commissioners of the revenue. Gentlemen, that is all a mistake. They average up pretty high as citizens and honest men. The fact is

this, that different men are going to look at values from different points of view. I doubt whether you would find, if all the men in this room were asked to fix the value on a certain piece of property in Richmond, giving them all the same data on which to work—I doubt whether you would find those values would come within—well, there would be extremes fifty per cent. apart. Unless you can subject your assessors to the control of and make them amenable to the advice of the central body, the tax commission, you might just as well not have a tax commission at all.

In Wisconsin they have worked out a most remarkable system of assessment. I call your attention to one very significant thing that Mr. Adams brought out last night. It is true that in Wisconsin the local assessors are not appointed by the tax commission, but the tax commission does appoint what are called income assessors in Wisconsin, and those income assessors act as superintendents or guides—I don't know what name they give them; in other words, they act as a control over the local assessors. These income assessors in Wisconsin, therefore, have under their control in large measure the work of the local assessors in Wisconsin, who assess real estate and things of that sort. There is very little tax on personal property in Wisconsin left. In other words, in Wisconsin the tax commission has power to make these assessments and impose its ideas of values on the local assessors in different parts of the State, and it has worked admirably; the people of Wisconsin are satisfied, the theoretical student of taxation is satisfied, the property owners are satisfied, and it seems to be about as effective and efficient a system of taxation as has heretofore been devised by any American State.

PUBLIC MIND AND TAX SYSTEM OF VIRGINIA NOT READY FOR STRONG CENTRALIZED COMMISSION

But can we put that in operation in Virginia at the present time? I do not believe that we can at present, and that for several reasons. In the first place, it takes a considerable number of years to prepare the public mind for a step towards centralization as complete as that is. They began in Wisconsin a decade or more

ago, and they began in a small way by creating a tax commission largely as a body to collect information and to act in a sort of advisory capacity. It did good work, and gradually its powers were added to until now it has become this very efficient, centralized administrative agency. In Virginia we might start out with a tax commission in an advisory capacity if we chose, but it would not effect the reforms which the people are clamoring for, and for which they are not willing to wait ten years. In other words, you have to prepare the public mind, and that has not been begun in Virginia; and until you do prepare the public mind, you cannot foist upon the people such a radical change as that with any chance of success. The only kind of tax commission that this Legislature can give us now, would be a sort of emasculated, impotent body that could accomplish no good work, in my opinion, in the next six or eight years. If things develop properly, it might grow to a very efficient system. But I think there is a better way to encourage this movement than by giving us a tax commission of that kind at the present time. The enormous power that such a tax commission would need in order to make assessments properly at the present time, the strict centralization necessary, and the unpreparedness of the people for those things, make it a very serious proposition for the Legislature to consider now as a practical matter.

Gentlemen, as old Grover Cleveland remarked on one occasion, "It is a condition and not a theory that confronts us" at the present time. We have got to build in accordance with the material at hand; we have got to consider human nature as it is; we have got to consider the people of Virginia and their prejudices as they are. If we want to centralize the administration of taxation, we have got to prepare the people to receive it. They have prepared the people for it in Wisconsin, and it works there.

Now another, and equally serious, if not more serious, objection to the present creation of a strong centralized tax commission in Virginia is this: Our tax laws, taken individually, need reform. As already pointed out, some of them ought to be repealed altogether; others ought to be modified, ought to be adjusted, ought to be systematized. We haven't got a tax system in Vir-

ginia, strictly speaking; we have a heterogeneous mass of taxes which have grown up year by year and which swear at each other, they will not live together in the same house. All of that has got to be modified. If we create a tax commission and say, "Gentlemen, go ahead and enforce the tax laws of this old Commonwealth," what would be the result? If they did enforce the tax laws as they are now, they would collect thirty or forty million dollars a year for the State, and a proportionately increased amount for the localities. If they did not enforce the laws as they now exist, the commission would degenerate into what boards of equalization usually become, mere figureheads, mere nominal boards, as they have in most States that have tried that curious compromise between appearances and realities. I do not think, therefore, that the State is now prepared, to use a slang expression, to go the whole hog in this matter of tax administration. I think that is an ideal situation. I think we ought, cautiously and gradually, to work towards it. That is not a step that should be taken at present.

OBJECTIONS TO COMPLETE SEPARATION OF SOURCES OF STATE AND LOCAL TAXATION

The other proposition before the Legislature is to separate the sources of State income from the sources of local income. There are a great many objections to this proposition, just as there are a great many objections to any suggested tax reform that can possibly be put forward. There are very few things of human creation that work without friction in this world. I know of no tax system which has not its defects, and there are some objections to the separation of sources of taxation. Mr. Adams touched on the most serious of all last night when he said that separation works to increase extravagance; that where the State derives its revenue from one group of sources, the strong temptation is for the Legislature, whenever there is a need for more money, to increase the rate of taxation on those sources, and the ease with which the rate can be increased on those sources leads the Legislature not infrequently to see a need for more revenue where such need would not

be so obvious if the ease of increasing the rate of taxation on corporations were not so great. This defect really arises from this: that where you have separation of sources of State revenue from the sources of local revenue, it really means that the great majority of the voters of the State are not specially concerned with the revenues of the State except from the point of view of those who are going to benefit by them. Now it is very necessary for the citizens of the State to regard matters of appropriation not only from the point of view of the beneficiary, but also from the point of view of those who are going to bear the expense; otherwise, you are going to have wild orgies of appropriations that will ultimately ruin the State. In other words, I do not think that Virginia can afford to adopt any system of separation so complete as to relieve the average voter from making some contribution to the State revenue, a contribution sufficiently large to make him alert to possible abuse.

How can you separate sources and at the same time retain direct taxation? Of course you can separate your sources; you can take over your railroad tax and the taxes on certain other public corporations; you can, if you deem it expedient, take over the bank taxes and other matters of that sort; and it may happen that that will give the State enough revenue. If so, I do not think you ought to take it all; I think you ought to leave some part of the State revenue to be raised by direct taxes on the people. This direct tax that is to be retained is apt to be a small part of the property tax; that is what most people advocate, not only on account of keeping the people in direct touch with appropriations, but also to give flexibility to the revenues of the State.

WHAT OUGHT THE LEGISLATURE TO DO

Now the Tax Reform Association of New York, as Mr. Pleydell pointed out last night, advocates a modification of that plan, and it has certain very attractive features. If the State is not getting from the public service corporations all of the revenue necessary, if those sources do not contribute the whole amount that the State needs, don't raise your balance by putting a one

mill or a two mill tax on the general property of the State, because the tax payer won't know it when you put it there. They say, distribute it among the localities, and distribute it on the ground of what they raise for themselves. That is a proposition which it would take me too long to discuss at the present time and do it justice. I merely call your attention to it as a possibility.

Now, what is the best thing for us to take into immediate consideration in Virginia? What ought the Legislature to do? Considerable work has to be done. We have got to take up the laws *seriatim*, we have got to go over them and see which ought to be repealed, which modified and which retained; we have got to make up our minds that after the laws are modified, we have got to administer them through a strongly centralized commission. I hope and pray that no man in Richmond, that no man in Virginia, advocates a commission without power to discharge the duties it ought to discharge. I take it that if the Legislature creates a tax commission at all, it is going to be a tax commission with adequate powers and adequate qualifications. Those things have got to be seriously considered. We have got to make up our minds whether we want a tax commission, and the kind of commission we want. If we think that separation of sources is a good thing, we have got to decide what sources should go to the State and what sources should be left to the localities; and then, when we have done that, we have got to arrange the machinery for administering the State tax laws, no matter what the sources are from which the taxes are collected. If you separate the sources, you cannot leave those sources to pay the taxes without some sort of tax administration. We have got to have tax machinery in Virginia whether you have separation or a commission; I don't care whether you call it a commission or what you call it, there has got to be tax machinery.

One of the great advantages of separation of sources at the present time is this: that it will bring clearly to the people of the different localities the necessity for expert aid and advice in the matter of making assessments. Not one man in fifty recognizes the difficulty of making assessments, and when once the locality feels that the assessment, whatever it is, is made for the benefit of

that locality and not for the purpose of increasing the tribute which the locality pays to the State, then the locality will appeal to the State for aid; and you will gradually have the people prepared for a system of assessment not as thrust upon them by a power over them, but as sought by them from a benign power which is able to aid them; and that is the most effective way, in my opinion, in which you can prepare the people for an enlightened method of assessment.

The Legislature has got to decide those things, and then the Legislature has got to decide this matter of the tax on intangible property. That is a shame that smells to Heaven at the present time in Virginia. I now might mention a great many things that have got to be taken up for mature consideration in Virginia. Gentlemen, I ask you, can the Legislature do it? Have they the time? When we read the list of bills that are presented, when we know the importance of many matters that have got to come before the Legislature, when we realize that this session is limited to sixty days, and that more than half of the members have never served in the Legislature before, that many of the members have never given more serious thought to the question of taxation than the average citizen of the State, it fills me with dismay to contemplate the possibility of the Legislature in this hasty way undertaking a work of such importance as the reform of our tax system in this regular session. The Legislature will be affecting the prosperity of the State for years to come, it will be responsible for the growth or decay of industry in all its fields here in Virginia by their treatment of our tax system.

**SPECIAL SESSION OF LEGISLATURE AND COMMISSION TO PREPARE
DATA, ETC., DESIRABLE**

Gentlemen, let us make haste slowly in this matter. I do not mean to sit still as we have been doing for the last two generations and leaving things as they are; but let us take that step which promises to give us real tax reform, and that is, for the Legislature to take time to consider this thing maturely, as it ought to be considered. It cannot do that in a regular session. My idea

is that the first thing for this session of the Legislature to do is to provide for a special session of the Legislature which will give to tax reform the study and thought that it needs, and which will afford to men who are new members of the Legislature the opportunity to study the question before they vote on it. I am personally of the opinion that it would be a good thing if the Legislature would appoint a commission to look very carefully into the matter of tax reform, between the regular session and the special session of the Legislature to be called next autumn, or, if it sees fit, a year hence. I think it would be helpful to have a commission work the matter up and prepare data for the Legislature, and prepare the public mind to receive the propositions that will probably be put before the Legislature. It may be that the Legislature will think that as it has already appointed one commission and received its report, there is no use in appointing another commission. I think if another commission were appointed, now three years after the other one, it could get more data than the other had, as conditions have not materially changed. I think it would help the Legislature a great deal. But I am not so particular about the appointment of another commission as I am that the Legislature should provide for this exceedingly important matter of tax reform to be considered by a special session, rather than go to work and try to do the whole thing now when it is quite obvious that it is physically impossible that it can do it as it ought to be done.

Mr. W. W. Glass: Mr. Chairman, I would like to make a motion that the hearty thanks of this Convention be extended to Dr. Page for his lucid and interesting treatment of the subject; and I would like further to move that the address that Dr. Page has spoken of to be given to the public. We understand from him that it contains a great deal of what we heard last night, and I also take it for granted that it contains a great deal of what we heard from him this morning. I presume his address this morning will be given to the public press, but I think the written address he mentioned should be given to the public, if it is practicable to do so. And I would like also to say that I think the thanks of this Conference should be extended to the Richmond Chamber

of Commerce for taking the initiative in bringing this Conference together. It has certainly shown enterprise and thought on their part, and we feel sure, after what we have heard here, that this move on the part of the Chamber of Commerce is going to be productive of a great amount of good. So I would like to make that motion, that we extend to Dr. Page our hearty thanks, and also to the Chamber of Commerce for what they have done for us.

Mr. Van Deventer: Mr. Chairman, I have had in mind making some suggestion similar to that just made by the gentleman who has preceded me in reference to the publication of the address of Dr. Page. It seems to me that we might advantageously, however, enlarge upon that suggestion, and have the entire proceedings of this Conference put in some sort of pamphlet form in order that all of us might have the advantage of thoroughly considering it in our leisure moments. I take it that this Conference is more or less representative, as it was designed to be, and these gentlemen represent different associations throughout the State as well as different sections. That being so, it seems to me that the objects of this association will be very largely promoted in presenting, though pamphlet form, to their various members the date which has been obtained at this meeting. It seems to me that much good would be accomplished by that process. I therefore amend the motion of the gentlemen who preceded me to the extent of moving that the whole proceedings of this Conference be put, if practicable, in pamphlet form that all may have it.

Mr. Glass: I am very glad to accept that amendment. It carries my idea to its logical conclusion.

A Delegate: Mr. Chairman, I desire to second the motion. I feel that the gentlemen of the Chamber of Commerce and the speakers they have brought here have rendered the State of Virginia, and every section of the State of Virginia, a very distinguished service, which I believe will be reflected in the action of the General Assembly in taking hold of this tax matter. It is, I think, to the average member of the General Assembly, largely a nebulous mass, a mass which has not been considered by the average member in the lines of his employment. I think the speakers who have appeared here have presented definite, clear and well-

defined ideas on this subject which will be reflected in the action of the General Assembly. I think the people at large, those present and the General Assembly should express to the Chamber of Commerce and Dr. Page, as well as the other speakers, their thanks for their services.

Mr. Adams: Mr. Chairman, it is necessary for me to leave now, and before I go I would like to ask the liberty of adding to my remarks last night. I want to express my appreciation of what Dr. Page said here. I have seldom listened to a talk on taxation which had more wisdom packed into it.

The problem of taxation is largely a problem of selecting between a number of facts. The problem is complex rather than intricate. It is selecting between the facts involved, and what is needed is somebody with breadth enough to see them. Almost everything said about taxation is true; the difficulty is to see it all. Dr. Page has shown an unusual degree of ability in seeing it broadly, and I do not see any use in asking anybody to come here from Wisconsin or New York or anywhere else if he is close by.

What I want to say is this: I have been among, perhaps, the more active opponents of the policy of separation. I want to say that the policy of separation as defined here by Dr. Page to-day, in the moderation in which it was stated, and the way in which it was defined, has my entire approval. It can injure nobody so far as I can see, and I think it would be perfectly and altogether to the good of the people of the State of Virginia. I represent a wing of people opposed to pushing this matter to an extreme, to wrenching our tax system in an effort to put it through. I venture to say that if one hundred experts working on that line were present here, ninety-five per cent. would agree in what I say, that if those things which naturally belong to the State were taken by the State, leaving to the local authorities the other things which naturally belong to the local districts, such a course would represent practical wisdom in this regard.

I differ just a little from what Dr. Page has to say about the tax commission. I heartily agree with and endorse with all the power I can express, his proposition that you do not want a tax commission until you can get a good one; that you do not want a

commission until you can get one composed of men who will give it their entire time and thought, and disassociate and divorce it from all political and extraneous considerations. But that you need a tax commission with all the centralized power of the Wisconsin tax commission at the present time, I somewhat dissent from. I think that is the only thing in which I differ with Dr. Page. The Kansas commission has done a great amount of good despite the defects which Dr. Page spoke of. To know those things which it has obtained the data upon is worth the Kansas commission. They have equalized in Kansas the State taxes, that has been done and done satisfactorily. They have carried into each assessment district the equipment and knowledge necessary to make a good assessment if the assessors desire. They do not all desire it, and the Kansas commission has not the power to force them, and it would be a good thing if they had the power, and naturally they are a little impatient and critical because they don't have it. But if you can get a commission composed of good men, it is not necessary to give them all of these powers at first; it can infinitely repay its cost to the State with a much smaller number of powers.

In conclusion I simply want to emphasize a few things which have been deeply impressed upon me for a good many years in this work. The average legislator, anybody who goes in the Legislature, is, as a rule, infinitely too careful about the cost of these commissions. The point I want to leave with you above everything is this: that the amounts of money involved, the interests involved here, are so large that it will pay you to spend money to get the facts and get results. The policy of not doing this thing because it involves the expenditure of a few thousand dollars is too picayunish, too short-sighted to be worthy of serious consideration. I told you last night of a single instance, that of the Wisconsin Tax Commission's investigation of the railroad situation, and we recommend a system with which no fair-minded railroad man can quarrel, and it made a large increase in the tax receipts. In the name of common sense, don't quarrel with a little amount of money; get the facts.

I want to endorse in the strongest way a temporary commission appointed to get the facts. We do not have the facts. As a

matter of fact, if every interest in your community wanted to act selfishly, the probabilities are very strong that they do not know what to do best to subserve their interests at the present time. You have got to have somebody to get the facts together. I was in the State of Missouri, I lived there, and a few years ago there was a proposition to do away very largely with the taxation of personal property. The farming interest of the State immediately arose en masse and protested that they would suffer. As a matter of fact, the farming industry of that State gained by that change. They did not know. The ignorance is appalling. This campaign is, biggest of all, an educational campaign.

I want to leave that thought, that if you get at the facts in a simple, impartial way, it will be worth many thousand of dollars. Get a commission like Dr. Page and students of taxation; you don't want to bother the practical men, but you need men right there who will look into this and get your facts. Action is too frequently taken without knoweldge of the facts, but on general lines, and general lines here are not sufficient. I thank you.

Mr. Glass' resolution, as amended, was then adopted.

The Chairman: The next matter before the Conference is the report of the Committee on Legislation.

Mr. A. M. Cannon: Mr. Chairman, as Chairman of the Committee I have a report. Before submitting that report I want to state to this Conference that on account of the Legislature holding a caucus to-night, we have decided to change the meeting from to-night to this afternoon at four o'clock. I now submit this report, and I hope it will be the pleasure of this Conference to receive this report in the spirit in which it is intended, and that this report will be adopted.

RICHMOND, VA., January 20, 1914.

To the Conference on Tax Reform:

The Committee on Legislation of the Richmond Chamber of Commerce, beg leave to report to the Conference on Tax Reform that they have given this important subject most careful study and consideration for over nine months;

but that they have no definite proposition as to Tax Reform to submit. In their opinion, it seemed wise that the representatives of the Chamber should approach the question on this occasion in a receptive state of mind, as it is hoped may be the case with all who are in attendance at this Conference.

Of course the members of the Committee have after such prolonged investigation and deliberation formed some views upon the question; but they have no concrete bill to offer for endorsement, nor does it, in their opinion, seem wise that this brief Conference should undertake to perfect any such measure. The Committee has, however, unanimously reached for following conclusions:

First. That the public should be enlightened as much as possible as to the obsolete character and absolute evils of the present system of taxation in Virginia; its imperfect operation; and its inapplicability to modern conditions and developments.

Second. That every patriotic citizen and tax payer should approach the consideration of the question with an unprejudiced mind; with the honest purpose not to be bound by purely selfish or local considerations; to be actuated by a spirit of co-operation and the determination to give due respect to the views of others, and with a willingness to some extent to "give and take."

Third. That public sentiment so animated will reach true and just conclusions, and that when those conclusions are expressed and focalized in their influence upon the representatives of the people, that a satisfactory measure may be adopted by the General Assembly in the near future. But they are absolutely convinced that this object cannot be accomplished at the biennial sessions of the General Assembly, which body, during the sixty days of their duration, are overwhelmed with other measures and cannot possibly give the consideration necessary to solve this vexed and intricate problem; and, therefore, they do go so far as to earnestly recommend that a special session of the Gen-

eral Assembly shall be called in the fall of 1914, for the sole purpose of enacting laws upon the subject of taxation, suited not only to the changed times, but adapted to any special conditions in Virginia; and a Commission or Committee be appointed to sit *ad interim* and submit to the special session of the General Assembly its findings.

This suggestion is in line with the recommendation of the State Auditor, who has rendered such signal service to the Commonwealth, not only in enforcing as far as lay in his power the present imperfect system, but by his reports as to the necessary expenditures and resources of the State, has afforded much data which will aid most materially in framing a system, improved in its method of operation and in its financial results.

To the end that this Conference might have the advantage of being informed from most authoritative sources as to the systems of more progressive States, Hon. T. S. Adams, of the Tax Commission of Wisconsin, and Hon. A. C. Pleydell, Secretary of the New York Tax Reform Association, were invited to address the Conference, and as to the necessity of reform in Virginia and the methods and opportunities of effecting such reform, Dr. Thomas Walker Page, Professor of Political Economy, of the University of Virginia, has also been invited to address you.

The Committee further recommends the appointment of a representative Committee on Resolutions, who shall prepare and submit before the adjournment of this Conference, such action as in their wisdom, they deem best to have taken.

Earnestly hoping that this meeting, which is called to represent all the material interests of the State, may add an impulse and a guiding influence in this matter of such paramount importance to the progress and welfare of the people of the Commonwealth, we have the honor to be,

Very respectfully,

COMMITTEE ON LEGISLATION,
By ARTHUR M. CANNON, *Chairman*.

On motion of Mr. Glass, duly seconded, the report of the committee was adopted.

Mr. O. A. Hawkins: Mr. Chairman, the adoption of that report carries with it the appointment of the Committee on Resolutions, to report at the meeting this afternoon. I want to offer the names of the following gentlemen as members of that Committee: Messrs. John T. McKinney, Campbell county; G. W. Doak, Tazewell; John Stewart Bryan, Richmond; Howell M. Miller, Rapahannock; Brock Van Deventer, Norfolk; W. R. Shelton, Hanover; John W. May, Alexandria; A. B. Thornhill, Bent's Creek; J. B. Clinedinst, Newport News; H. M. Darnall, Roanoke; A. B. Carrington, Danville; W. W. Glass, Waynesboro; R. H. Wood, Albemarle.

Mr. Hawkins' motion was adopted, with the exception that Mr. Hawkins was substituted for Mr. Bryan, the latter being unable to act.

Dr. Charles A. Gitchell, of Louisa, Virginia, then addressed the Conference upon "The Tax Problem and its Relation to Administration," in which he directed attention especially to an analyses and elucidation of the complex conditions of the questions and to the fact that while the abstract propositions and proposals were not difficult to understand that the ways and means to be adopted to bring them about was a riddle unsolved in Virginia.

His address was heard with much interest and appreciation by the Conference.

The meeting then adjourned until four o'clock P. M.

AFTERNOON SESSION.

4:00 O'CLOCK P. M., JANUARY 21, 1914.

Honorable J. Taylor Ellyson, chairman: The meeting will please come to order. The first business of the afternoon is to consider the report of the Committee on Resolutions which was appointed this morning.

Mr. O. A. Hawkins: Mr. Chairman, your Committee appointed to draft resolutions embodying its convictions and conclusions, begs leave to submit its report.

The undersigned Committee have attended the meetings of the Tax Conference held in Richmond on January 20 and 21, 1914, under the auspices of the Chamber of Commerce, and have followed with profound interest and keen appreciation the addresses and debates on the problem of tax reform which is now confronting the people and Legislature of Virginia.

From these addresses and discussions the following facts have been clearly demonstrated:

It is admitted that our tax laws are outworn and obsolete.

It is admitted that our assessments are unequal and unjust.

It is admitted that the heaviest burdens are laid on those least able to bear them.

It is admitted that the material prosperity of the State is hampered and the mutual confidence between the various classes of the State is impaired by the discriminatory methods of taxation now in use in Virginia.

To solve these difficulties, to remove these inequalities, to liberate the powers of Virginia, are all within the hands of the Legislature, to which body is entrusted the law-making power of the State, and your Committee looks with confidence to the ultimate wisdom of the course that the Legislature will pursue.

As this task involves great expenditure of time and labor, the collection of facts, concentration of mind, and as the demands upon the time of the Legislature are such as to preclude the proper consideration by them of these complex and vital problems, your Committee would respectfully suggest the adoption of the following resolutions:

That the General Assembly of Virginia be requested to pass a bill providing—

First. That a Committee be appointed, composed of five members, of which Dr. T. W. Page shall be one, one member appointed by each branch of the General Assembly, and two members to be appointed by the Governor, for the purpose of considering and reporting upon tax reform in Virginia.

Second. That such Committee will be expected to give all the necessary time to discharge its duties as speedily as can be wisely done.

Third. That this Committee shall be amply paid, and that ample funds be appropriated to enable them to collect facts, bring before them experts and witnesses, and employ clerks, and that they shall have full power to summon witnesses and compel them to testify.

Fourth. That after getting all the information available, they shall prepare bills embracing their views on the reforms that may to them seem wise, and, when completed, to report the same promptly to the Governor of Virginia.

Fifth. That upon the receipt of the report, the Governor shall call a special session of the General Assembly of Virginia to consider the subject of taxation and that alone, and pass tax reform bills, laying before them the report of said Committee.

O. A. HAWKINS, *Chairman*, Richmond, Va.,
BROCK VAN DEVENTER, Norfolk, Va.,
W. W. GLASS, JR., Waynesboro, Va.,
H. M. DARNALL, Roanoke, Va.,
JOHN W. MAY, Alexandria, Va.,
R. H. WOOD, Charlottesville, Va.,
A. B. THORNHILL, Bent Creek, Va.,
W. R. SHELTON, Atlee, Va.,
J. B. CLINEDINST, Newport News, Va.,
G. W. DOAK, Tazewell, Va.,
HOWELL M. MILLER, Washington, Va.,
JOHN T. MCKINNEY, Campbell Co., Va.,

Committee on Resolutions.